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REDUCTION IN FORCE: ORGANIZATIONAL AND INDIVIDUAL
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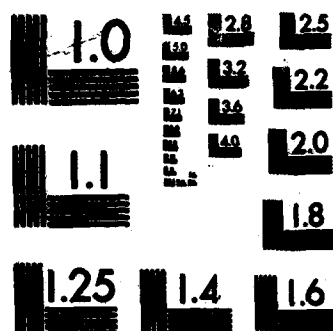
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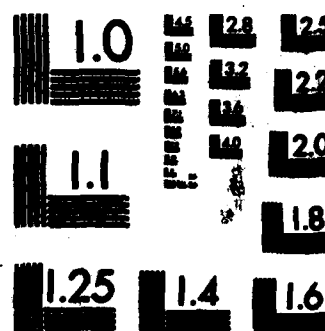


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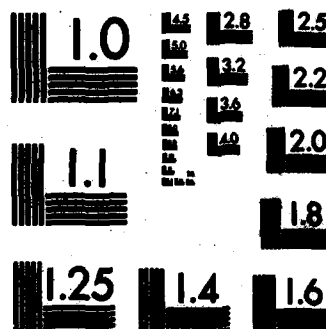
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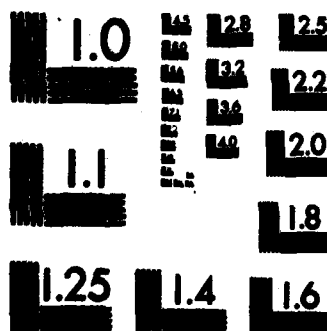
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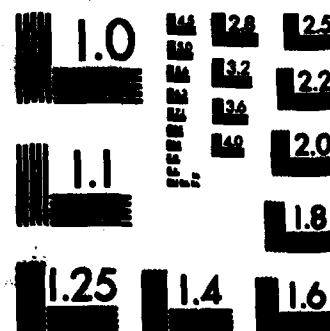
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Abstract

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Reduction in Force: Organizational and Individual Issues

A fact of life for many, if not most, organizations is that economic conditions sometimes dictate reductions in their work force. Recessions, shrinking demands for products and services, mergers, re-organization and so forth, typically necessitate that some percentage of an organization's current work force be laid off. Employees facing a possible reduction in force (RIF) view the process with a good deal of anxiety and fear.

Because of its negative connotation, social scientists have seldom studied the reduction in force process, viewing it as somewhat of the "dark side" of organizational behavior. Yet a number of questions occur concerning the RIF process which is of great interest to management. These questions include the following:

- . Who is or should be terminated? That is, what are the criteria that are or should be utilized in making the decision about who to terminate?
- . How should the termination process be managed? That is, who should do the terminating, where and when should it be conducted, how should it be "handled",
- . What is the psychological impact on those individuals terminated? Is there any natural occurring sequence of emotions, reactions, and coping mechanisms?
- . Is there any value to the utilization of "outplacement services" conducted either

internal or external to the organization?

What kinds of services may be of most benefit to the terminated employees?

The purpose of this paper is to review the available psychological and business literature concerning the above stated questions. In some cases, very little information is available which has any scientific bases. In these instances we will summarize the kinds of "hypotheses" that have been generated and the "how to" comments offered by consultants and other persons presumably familiar with the RIF process.

Reduction in Force: A Model

Perhaps one way of reviewing the RIF process is to view the experience as a continuing process. Arvey & Jones (1982) have presented a model outlining their ideas concerning what occurs for both the organization and the individual during the termination process. This model is presented in Figure 1. In this

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Insert Figure 1 about here

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figure, the various steps that take place for both the individual and the organization are displayed along a time dimension. We will discuss several of the variables and decision points depicted in this figure.

Perception of Need to Reduce Force

At some point in time, based on some stimulus or configurations of stimuli, individuals in an organization perceive a need to cut back and reduce the number of employees. These perceptions

may be based on a variety of input. Typically, reduced profits and decreased demand for products signal the need to cut back. In addition, managers may be sensitized to this issue because of general economic conditions, local employment rates, and other external indicators. The need to reduce one's labor force may also occur rather quickly or be a somewhat retarded or slow process.

One of the critical decisions which managers must make concern the magnitude or size of the RIF. Cyclical recessions and recoveries must be somehow factored in, and efforts made to forecast the costs of the RIF to the organization in the form of severance payments, new trainee cost if the cuts are "too deep", and so forth.

Similarly, careful thought must be given to the "kind" of RIF. Should the reduction be a percentage reduction across the board (e.g., 5%, 10%) or more focused in nature when specific jobs, job families, departments, or even locations are phased out? In a provocative article, Behm (1980) argues that a clear corporate strategy is needed when a "retrenchment" is necessary. Behm argues that organizations should have some vision concerning what the organizations will look like after cut backs and an RIF. Simply "cutting the fat" requires a far different corporate strategy and planning mechanism on organizations survival tactic that lets people go without much rhyme or reason. As organizational resources decline, it is desirable that organization leaders and members know where they are going and how they will get there. The RIF process should be managed and not just a

blind reaction to economic conditions.

At a more molecular level, Axmith (1981) indicates that many terminations are implemented with little systematic planning. "It is surprising how often terminations are carried through with little thought about such crucial details as to the terms of the severance agreement; the timing of the dismissal; the handling of the individual during and after the termination interview; the nature of internal and external announcements to be made about the termination; and the handling of reference checks. These are all aspects of the firing process which can, and should, be thoroughly planned out in advance" (p.36).

Basically, the points made by Behm and Axmith indicate a strong need for organizational planning in the cutback and RIF process.

Who gets terminated?

The kinds of criteria which organizations use in deciding who to terminate are not well articulated nor are the various "weights" that organizations assign to these variables. It seems intuitive that these variables are not the "flip side" of those variables used in making promotion and transfer decisions. At least, not in the weights assigned. Whereas promotion decisions are likely to be made based on performance factors, termination decisions may depend more heavily on length of service.

A Houston-based consulting firm (Drake, Beam, Morin, Inc.) conducted a survey of termination policies and practices in 1980 sending questionnaires to 1900 U.S. companies. Responses were obtained from 449 organizations. One question had to do with

whether their termination policy or practice involved consideration of 5 potential factors. Their finding revealed the following:

	Yes	No	No Response
Length of service	88%	6%	6%
Level in organization	69%	19%	12%
Age	40%	43%	17%
Salary	43%	40%	17%
Performance	48%	34%	18%

Thus, length of service appears to be the variable given most consideration by the organizations, followed by level in the organization. Presumably those individuals with shorter tenure and at lower levels of the organization are the most vulnerable targets for an RIF. Quite possibly the underlying theme is "who would get hurt the most if laid-off".

Morin & Yorks (1982) suggest that the most justifiable termination reason is poor performance and that organizations often "muddle up" terminations even when strong evidence of poor performance exists. They identify several other factors which should possibly be considered in termination decisions. These include: ethical misconduct, failure to comply with company regulations and rules, and lack of relevance of a manager's strengths to the needs of the corporation. In addition, the promotability or future potential of current employees are factors sometimes considered in the RIF process.

An element to consider is that there may be quite different psychological implications for employees and organizations depending on whether employees are terminated because of external organization causes (a lay-off, reduction in budget, etc.) or because of something for which the employee was responsible (i.e.,

poor performance, unexplained absences, etc.). The organizations may well benefit by letting go the poor performers, but these individuals may be the ones least able to find jobs, suffer the most psychologically, be more traumatized, etc. because of their attributions of their own job loss due to internal employee related factors. That is, they would perceive the job loss as a result of their own job behavior and not some external factor. The point to be made here is that there may be inherently different outcomes for the employer and the displaced worker depending on the criteria used for and perceived cause of the termination.

A strategy that some companies adopt in deciding "who to terminate" is to announce that cuts in personnel are pending and that added financial incentives will be made available to those individuals who voluntary "retire" or terminate. Thus, the decision-making responsibility is initially shifted onto the shoulders of the employees who self-select. If this strategy does not result in a sufficient number of cuts, management must then make the decisions.

While not mentioned frequently, another variable or factor considered in the RIF decision-making is that "jobs" are targeted for elimination because they are no longer as relevant for fulfilling the objectives of the organizations. Thus, the individuals terminated would include all incumbents filling these targeted positions, and may "ease" the psychological pain somewhat for these employees by knowing that they personally were not singled out for termination, but instead it was a job elimination.

It is possible that in some companies, particularly those with paternal orientations, that more individualistic factors may be considered. Such things as the anticipated effects on the family, marital status, anticipated psychological state, etc. may be factors to consider. Organizations would attempt to terminate those individuals who could handle it best. A potential problem with this strategy is that these individuals may also be the organization's best people.

Psychological tests have also been used to make termination decisions. Apparently, some civil service agencies have administered exams and the poorest scoring individuals selected for termination. This process raises the spector of test validity, reliability, and charges of unfair discrimination (Arvey, 1979). A variant of this kind of criteria might be the use of work samples where employees are asked to perform on relevant portions of their jobs under standardized conditions and their scores used to help make termination decisions. It seems likely that test anxiety could be a major factor influencing test results under this kind of pressure.

It also seems likely that organizations use several variables simultaneously in making termination decisions and that they weight the factors differentially. An interesting piece of research would be to apply policy capturing strategies to detect the actual criteria that organizations use in making these decisions.

There is also a growing awareness of making termination decisions which are defensible from a legal perspective. Organiza-

tions must deal with potential plaintiff charges that dismissal was a result of race, sex, religion, age, sexual harassment, and other volatile variables (McAdams, 1978). Thus, the legal climate is very suggestive that organizations have evidence that the termination decisions were based on some rational or empirical bases rather than totally subjective factors. Similarly, union pressures are such that dismissals and the criteria for dismissals are negotiated items.

The Impact of Termination

There is little doubt that the impact of being terminated on an employee is enormous.² Various authors (Finley & Lee, 1981; Furler, 1980) have described employees response to being terminated as occurring sequentially in several phases. The analogue has been made that the stages of psychological coping is similar to the stages described by Kubler-Ross (1969) for the stages of dying. For example, Finley & Lee (1981) indicate that the process occurs along the following lines:

1. Shock. The terminnee experiences physical and mental trauma. He/she is unable to do much constructive thinking.
2. Denial or disbelief. The terminated employee doesn't believe that it could happen to her/him and that it is all a mistake.
3. Relief. In many terminations, cues have been given prior to termination, and once it happens the event provides some psychological relief that it's now "over with" and the ambiguity is removed.

4. Anger. Anger occurs toward the organization but also toward one's self because of an inability to personally prevent or resolve the situation.
5. Bargaining. This is an attempt to resolve the termination process. The terminated employee tries to obtain re-assignment, postpone the termination date, etc. in an effort to cope more actively with the decision.
6. Depression. This stage is quite characteristic of terminated employees. The terminated employee becomes withdrawn and isolated, unable to sleep, etc.
7. Acceptance. With time, the terminated employee reaches a stage when they achieve some degree of peace. They view the experience as possibly having some growth potential and start to make active plans for finding a new career or job.

Arvey & Jones (1982) identified the following factors associated with the stressful trauma of job loss and the potential behavioral manifestations of the stress responses:

Potential Reactions to Job Loss

Fear

Potential Behavioral Manifestations

- . Increased worry
- . Illness
- . Emotional problems
- . Increased alcohol & drug use

Anger

- . Fighting
- . Stealing
- . Work slowdowns
- . Threats, lawsuits, sabotage

Apathy

- . Depression
- . Sense of loss
- . Sense of futility

Cobb (1974) detailed some of the physiological effects associated with job loss. He indicated that terminated individuals demonstrate meaningful changes in norepinephrine excretion, serum creatinine, serum uric acid, and serum cholesterol, all of which are associated with stress responses.

The impact of job loss on productivity and morale has received surprisingly little research attention. Proponents of the organizational view argue for announcing the termination decision shortly before it is carried out due to anticipated slowdowns, possible strikes, etc. One study conducted by Hershey (1972) compared productivity, absenteeism, and tardiness during an anticipatory period for employees who knew they were to be laid off to those of employees who knew they would not be laid off. These data indicated no differences between the two groups or any decrement in employee behavior over a four-month period. While the study is provocative, the various measures used were possibly inadequate psychometrically. Moreover, no attitudinal data were gathered to directly access the impact on morale and satisfaction.

In summary, it appears as if the impact of job loss on individuals can be heavy and traumatic. While there are very few scientific studies detailing the traumatic effects, the available evidence and common sense indicate pronounced effects of job loss on individuals.

The Adjustment Process

Coping and adjusting to a job loss is not an all-or-nothing phenomenon. That is, people adjust to varying degrees and some individuals are able to adapt more effectively and quickly than others. Unfortunately, the coping/adjustment process has not been described well nor studied in any systematic and rigorous fashion. Drawing from the case study of a plant closing down (Slote, 1969), Arvey & Jones (1982) outlined a model delineating a suggested continuum of the coping/adapting process. They suggest that individuals may adopt, to some degree, one of several different coping strategies. The first strategy is labeled Self-development. Individuals who adopt this particular coping mechanism begin searching actively for a job soon after hearing about the termination they utilize whatever assistance is available, are reasonably objective about the reasons for being laid-off, anticipate being out of a job by a certain date, etc. These individuals adopt realistic and active behavior patterns relatively soon after the termination decision is announced. That is, their behavior reflects a highly adaptive style of responding to the job loss.

A second stylistic coping mechanism suggested by Arvey & Jones (1982) is called Survival. Individuals adopting this style

appear relatively immobilized in their job search activities, typically remain on the job until terminated, do not take full advantage of any assistance programs, and seem to focus on simply surviving rather than actively coping/taking action.

Finally, a third strategy identified by Arvey & Jones (1982) which reflects greater rigidity is called Psychological Defense. Individuals adopting this strategy appear to deny the job loss, engage in excessive blaming, mismanage their time, become relatively insular to the reality of the situation, and generally react non-adaptively to the job loss trauma. Note, however, that these proposed styles or strategies are not based on the benefits of scientific evidence and thus remain somewhat speculative.

Just how and why some individuals adjust and cope more effectively with job loss is not well known. We suspect that the adjustment and coping process is a function of three main classes of variables: 1) characteristics of the employee, 2) the manner in which the termination is managed, and 3) the nature of the outplacement services provided to terminated employees. We will review each of the classes of variables in turn.

1. Characteristics of the Employee

Although it seems reasonable to assume that individual factors impact one's ability to cope with termination, research exploring this issue is quite limited. There is evidence to suggest that age plays a factor in the adjustment process. Research indicates that workers in the 50-70 age range have a more difficult time obtaining employment, spend more time in the un-

employed state, and receive lower salaries at the new job once it is obtained (Turner & Whitaker, 1973). Moreover, Niehoff (1979) found that older workers experienced more trauma, had more trouble accepting responsibility for finding a new job, and were less able to take advantage of the help offered by the organization than were younger individuals.

It also seems reasonable to assume that employees whose marketability is low will have a more difficult time securing employment, suffer relatively more stress and trauma, and therefore, adjust less well. Thus, it is suggested that individuals with skills that are not currently in demand, who are members of a minority group, who have lower educational levels or skill levels, will be less successful at securing a new job and will adapt less well to job loss (Harrick, Hansel, & Schutzius, 1982).

Similarly, it seems reasonable to propose that employees with a large number of dependents, who have a great deal of continuing financial obligations, and whose jobs provide 100 percent of the family income will likely experience a greater degree of trauma as a result of termination.

Surely a number of psychological factors are likely to influence an individual's reaction and adjustment to job loss. Personality variables and constructs such as defensiveness, ego-strength, self-esteem, flexibility, and so forth are likely candidates for correlates of the adjustment ease of individuals. However, research exploring these issues is essentially nonexistent.

2. How the Termination Process is Managed

Most people are familiar with the "horror stories" concerning the way in which particular individuals were terminated. The story about the employee who arrives at work only to find a cleared-off desk with a pink slip on it may be true, but we suspect uncommon. Instead, organizations probably handle the termination process with a great deal of latitude and variability. Morin & Yorks (1982) indicate that the typical termination interview is characterized by the following elements:

- . The actual termination interview varies widely from manager to manager with little corporate guidance.
- . Employees are terminated so vaguely that they don't know for sure if they are being let go.
- . Employees are treated with excessive cruelty and lack of respect.
- . There is no consistency in the way the termination is handled.

Obviously, a termination process which is excessively cruel and confusing will lead to relatively more trauma than a termination which is managed in an efficient, professional, and non-defensive style designed to support rather than blame an employee. However, again, little research exists concerning how to handle or manage the termination process. Consultants abound with "how to" books and advice concerning the termination process. For example, Troisc (1979), Morin (1981), and Axmith (1981) all give various kinds of guidelines about how to handle the termination

interview, when and where it should be held, how to deal with the emotional reactions which are elicited, etc.

The problem is that these kinds of advisements are being offered without the benefit of any scientific evidence. Currently, we know almost nothing about when, where, and how to conduct the termination itself. We suspect that the manner and style in which the termination process is handled is related to the psychological trauma experienced and to the adjustment strategies adopted by the individuals.

3. Outplacement Services

It also seems reasonable that additional services provided by the organization may buffer the job loss trauma. Indeed, in a response to the need articulated by both organizations and individuals to facilitate the termination process and provide a psychological cushion for individuals experiencing job loss, outplacement services have been a quickly growing field.

Zemke (1979) outlined the various services which are often included in outplacement programs. These include personal counseling (which sometimes includes family members), interview training, job search training, resume preparation, resume typing and reproduction, job leads, advertising in newspapers or trade publications, letters to potential employers, and facilities to serve as a base for job contacts. An important component is that of leading the employee through a self-evaluation of personal interests, strengths, goals, and needs (Maybee, Notel & Schaaf, 1981).

Finley & Lee (1981) illustrate how various counseling strategies may correspond to the psychological stages of the terminated employee. Figure 2 shows the correspondence suggested by

 Insert Figure 2 about here

these authors. Broussard and Delargely (1979) suggest that the outplacement workgroup should consist of between seven and sixteen people who are not from extreme levels of the organization and are not members of the same work cliques. They also feel that the first outplacement sessions should occur the day following the termination interview, with a week to do homework before the second session. Schlossberg and Leibowitz (1980) reported that terminated employees viewed the assistance and training in finding jobs, the individual counseling, and the interview workshops positively. Also, the advantages of group outplacement seem to complement those of individual outplacement (Harrick, Hansel, and Schutzius, 1982). While group outplacement is less expensive and offers group support for individuals, as well as the opportunity to discuss unfamiliar topics in a nonthreatening environment, individual outplacement can be tailored to the needs of the individual. Some programs include both group and individual outplacement, in order to enjoy the benefits of both. Broussard and Delargey (1979) maintain that the leader's skill is the most important factor in determining the quality of the outplacement program.

Remaining Employees

An obvious additional consideration is the impact of an RIF on employees who remain in the work force. Several things may occur which can have impact on both the employees and the organization. First, employees may be kept "psychologically suspended" while they wait to hear who will or will not be cut. Management has historically sought to withhold layoff announcements until the last possible moment because of anticipated slowdowns and work stretchouts. A second possible event is that even when employees know who is being laid off and who isn't, the remaining employees may be discouraged, angry, and bitter with the organizations and their work may suffer.

Need for Research

In reviewing the literature concerning the RIF process, the impact of termination on employees, and the various proscriptions about how best to handle terminating employees, one is struck by the fact that almost no research has been conducted in this area. We know almost nothing when it comes to answering questions concerning how best to conduct termination interviews. Clearly, more research is needed in this area. Survey research needs to be conducted where terminated employees are asked to describe the actual behaviors exhibited by the managers and other organizational members during and after the termination decision was announced. It is important to discover which behaviors and strategies were more influential in facilitating and helping the terminated employee through the job loss process.

Moreover, organizations are unclear about the kinds of factors to consider and use to make termination decisions and almost no data exists summarizing what organizations use. It is important to discover if organizations use the factors which they articulate when the actual termination decisions are made. An interesting research project could involve attempting to "capture" the actual termination policies utilized by decision-makers.

In short, there is a dearth of research in this area and industrial/organizational psychologists need to make strong efforts to fill this void.

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Footnotes

1. We wish to express our thanks to Mr. Enrique Canales for his early work on this paper.
2. Job loss is not always negative. Little (1976) indicates that for some individuals job loss represents an opportunity to escape from an unpleasant job.

TERMINATION PROCESS

Organizational Components

Perceptions of need to RF

Communicate need to employees

Decide on 'who' to terminate

Terminate employees

Conduct outplacement service?

Individual Effects

Individuals terminated

Fear, Anxiety, Ambiguity

Shock, Denial, Anger, Depression, etc.

Re-orientation/ purchase decision

New job

Individuals not terminated

Fear, Anxiety, Ambiguity

Enlist

Support outplacement

Productivity, Morale, Satisfaction changes?

Figure 1

I <u>Placing Termination Event in Perspective</u>	
<u>State of Mind</u>	<u>Counseling Strategies</u>
A. Shock	A. Assist clients in identifying feelings
B. Denial and Disbelief	B. Establish rapport, bond of trust
C. Relief	C. Establish credibility
D. Anger	D. Prioritize needs
	E. Announcing termination to family and friends
II <u>Seeking and Receiving Support and Assistance</u>	
<u>State of Mind</u>	<u>Counseling Strategies</u>
A. Bargaining	A. Assess family patterns
B. Depression	B. Assess sociometric stability
	C. Assess significant others as professional resources
	D. Read self help literature
III <u>Resumption of Productive Strategies</u>	
<u>State of Mind</u>	<u>Counseling Strategies</u>
A. Acceptance	A. Make a plan
	B. Refine job-seeking skills
	C. Develop resume
	D. Broadcast letters
	E. Physical exercise
	F. Interviewing
<u>Satisfactory Employment</u>	

Figure 2

Outplacement Counseling Model